

Press Release

KBS Industries Private Limited

May 16, 2019

Rating Upgraded and Assigned



Total Bank Facilities Rated*	Rs. 110.00 Cr. (Enhanced from Rs.73.00 crore)
Long Term Rating	ACUITE BBB / Outlook: Stable (Upgraded from ACUITE BBB-/Stable)
Short Term Rating	ACUITE A3+ (Upgraded from ACUITE A3)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded long-term rating to '**ACUITE BBB**' (read as **ACUITE triple B**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating to '**ACUITE A3+**' (read as **ACUITE A three plus**) from '**ACUITE A3**' (read as **ACUITE A three**) to the Rs. 89.00 crore bank facilities of **KBS Industries Private Limited (KBS)**. The outlook is '**Stable**'.

Further, Acuite has assigned the short term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) to Rs.21.00 crore bank facilities of KBS.

The rating revision is in view of significant improvement in business risk profile as marked by improving revenues along with profitability margins. The company's revenue grew at a CAGR of ~43.71 percent over the last three years through 2017-18. The company's revenue reported high of Rs.410.2 crore for FY2019 (Provisional) as against Rs.267.8 crore in FY2018 and Rs.198.6 crore in FY2017. Further, the company has set up a new plant in Silvsa for manufacturing of electrical wires which is expected to commence by the end of May, 2019 which would contribute to the revenues in FY2020. The company's profitability improved to 5.40 percent in FY2018 as against 4.44 percent in FY2017 and 3.30 percent in FY2016.

KBS Industries (KBS) was incorporated in 2012. The company, promoted by Mr. Arjun Anand and Ms. Monica Sachdeva, is engaged in the manufacturing of semi-finished copper and alloy products such as rods, bus bars, strips and plates among others. KBS has its manufacturing facility located at Haryana with installed capacity of 12 tonnes per hour.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of KBS to arrive at this rating.

Key Rating Drivers

Strengths

• Experienced management

The promoters possess more than a decade of experience in this industry. Before promoting KBS, the promoter possessed industry experience of a decade. Acuite believes that promoters' experience in the industry and longstanding relationship with the clientele of over a decade will help the company with repeated orders from its customers. Further, KBS has added reputed customers such as Hindalco and Havells in its clientele.

• Healthy growth in revenues with improving profitability margins

The company's revenue grew at a CAGR of ~43.71 percent over the last three years through 2017-18. KBS showed healthy growth in revenues marked by operating income of Rs.267.8 crore in FY2018 as against Rs.198.6 crore in FY2017 and Rs.150.3 crore in FY2016. Further, the company booked Rs.410.2 crore of revenue for FY2019 (Provisional). Further, the company has set up a new plant in Silvsa for manufacturing of electrical wires, which is expected to commence in May, 2019;

which would contribute to the revenues in FY2020. The company's operating margins improved to 5.40 percent in FY2018 as against 4.44 percent in FY2017 and 3.30 percent in FY2016. Further, the company reported Profit after Tax (PAT) margins of 2.74 percent in FY2018 as against 1.63 percent in FY2017 and 0.43 percent in FY2016. Acuite believes that the company's ability to register significant growth in its revenues while improving its profitability would be key rating sensitivity.

- **Moderate financial risk profile and working capital**

The financial risk profile of the company is moderate marked by tangible net worth of Rs.45.46 crore as on 31 March, 2018 as against Rs.33.49 crore as on 31 March, 2017. The improvement in net worth is on account of accretion in reserves and unsecured loans of Rs.20.23 crore in FY2018 from promoters which are subordinated to bank debt. Hence, Acuite has treated them as quasi equity. The gearing (debt- equity) remained stood moderate at 1.14 times as on March 31, 2018 against 0.93 times as on March 31, 2017. The total debt outstanding of Rs.51.62 crore as on 31 March, 2018 consists of working capital borrowing of Rs.47.07 crore and term loan of Rs.4.55 crore. The leverage and coverage indicators continue to remain moderate marked by Interest Coverage Ratio (ICR) and Debt Service Coverage Ratio (DSCR). ICR stood at 3.59 times for FY2018 and DSCR stood at 2.19 times in FY2018. Total outside liabilities to tangible net worth stood at 1.86 times as on 31 March, 2018 as against 1.65 times as on 31 March, 2017.

The company maintains moderate working capital cycle as the same stood at 149 days for FY2018 as against 132 days in the previous year. Average cash credit utilisation is fully utilised. Acuite believes that the growth in revenue, sustenance of its profitability margins and absence of any further significant capex plans are expected to support the financial risk profile in near to medium term

Weaknesses

- **Susceptible to fluctuations in prices of raw material and forex rates**

The major raw material of the company is copper scrap. The prices of the same are fluctuating in nature, therefore the operating profit margins of the company is susceptible to raw material price fluctuation. Further, KBS imports part of its raw material from Dubai. Thus, it is exposed to adverse fluctuation in foreign currency exchange rates.

- **Presence in highly competitive and fragmented industry**

KBS operates in the highly competitive copper industry with much pressure on capacity utilisation and bargaining power of the company. The stiff competition from relatively cheaper imports also limits KBS's pricing flexibility and profitability.

Liquidity position:

The company has moderate liquidity marked by moderate net cash accruals as compared to its maturing debt obligations. KBS generated cash accruals of Rs.1.12-8.15 crore during the last three years through 2017-18, while the maturing debt obligations were in the range of Rs.1.50 crore over the same period. The cash accruals are estimated to improve to Rs.11.00-14.00 crore during 2019-21, while its repayment obligations are nil. This is on account of significant improvement in revenue leading to high profitability. KBS maintains cash and bank balances of Rs.16.21 crore as on March 31, 2018. The current ratio stood moderate at 1.31 times as on March 31, 2018. Acuite believes that the liquidity of the company is likely to remain moderate over the medium term on account of no major repayments over the medium term.

Outlook: Stable

Acuite believes that KBS's outlook will remain 'Stable' over the medium term from its experienced management along with significant improvement in revenues and profitability, and moderate financial risk profile. The outlook may be revised to 'Positive' in case of higher than expected growth in its revenues while improving its profitability. The outlook may be revised to 'Negative' in case of steep decline in revenues and profitability or stretch in its working capital management leading to deterioration of its financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	267.88	198.62	150.37
EBITDA	Rs. Cr.	14.47	8.82	4.97
PAT	Rs. Cr.	7.33	3.23	0.64
EBITDA Margin	(%)	5.40	4.44	3.30
PAT Margin	(%)	2.74	1.63	0.43
ROCE	(%)	16.90	14.54	11.48
Total Debt/Tangible Net Worth	Times	1.14	0.93	1.34
PBDIT/Interest	Times	3.59	2.13	1.32
Total Debt/PBDIT	Times	3.55	3.44	5.81
Gross Current Assets (Days)	Days	149	132	146

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Acuite is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
22-Feb-2018	Cash Credit	Long Term	10.00	ACUITE BBB- / Stable (Upgraded from ACUITE BB/Stable)
	Cash Credit	Long Term	12.50	ACUITE BBB- / Stable (Upgraded from ACUITE BB/Stable)
	Cash Credit	Long Term	12.00	ACUITE BBB- / Stable (Upgraded from ACUITE BB/Stable)
	Term Loan	Long Term	7.00	ACUITE BBB- / Stable (Upgraded from ACUITE BB/Stable)
	Proposed Bank Facility	Long Term	5.00	ACUITE BBB- / Stable (Upgraded from ACUITE BB/Stable)
	Letter of Credit	Short Term	12.00	ACUITE A3 (Upgraded from ACUITE A4+)
	Letter of Credit	Short Term	2.50	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	12.00	ACUITE A3 (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BB / Stable (Assigned)
	Term Loan	Long Term	7.00	ACUITE BB / Stable

31-May-2017				(Assigned)
	Proposed Long Term Loan	Long Term	5.00	ACUITE BB / Stable (Assigned)
	Letter of Credit	Short Term	12.00	ACUITE A4+ (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.50	ACUITE BBB / Stable (Upgraded from ACUITE BBB-/Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE BBB / Stable (Upgraded from ACUITE BBB-/Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	17.00	ACUITE BBB / Stable (Upgraded from ACUITE BBB-/Stable)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE A3+ (Upgraded from ACUITE A3)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A3+ (Upgraded from ACUITE A3)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A3+ (Upgraded from ACUITE A3)
Proposed Fund Based Facility	Not Applicable	Not Applicable	Not Applicable	21.00	ACUITE BBB / Stable (Upgraded from ACUITE BBB-/Stable)
Proposed Non-Fund Based Facility	Not Applicable	Not Applicable	Not Applicable	21.00	ACUITE A3+ (Assigned)

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About Acuité Ratings & Research:

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